



Fitch Affirms First Flexible No. 7 Class A & C; Downgrades Class B

Fitch Ratings-London-31 January 2018: Fitch Ratings has downgraded First Flexible No. 7 plc's (FF7) class B notes and affirmed the rest as follows:

Class A (ISIN XS0282470797): affirmed at 'AAAsf'; Outlook Stable

Class B (ISIN XS0282471092): downgraded to 'AAsf' from 'AAAsf'; Outlook Negative

Class C (ISIN XS0282471175): affirmed at 'Asf'; Outlook Negative

FF7 is a securitisation issued in 2007 and consisting of owner-occupied (86.9%) and buy-to-let (13.1%) mortgages originated by Paragon Group of Companies plc.

KEY RATING DRIVERS

Interest-Only Loan Maturities

Currently 68 loans have gone beyond their maturity date without meeting the final balloon principal payment. The borrowers of these loans have made individual arrangements with the servicer to pay down the principal amount while also continuing to pay interest. This results in potential concentration and tail risk, which is likely to increase as more loans come to the end of their term without borrowers being able to repay the principal amount. Fitch believes the class B and C notes are most vulnerable to this risk.

Fitch has applied a data adjustment to treat these loans as being in arrears from the scheduled maturity date. This reflects the outstanding principal payment. Fitch understands from the servicer that most of these loans are continuing to pay interest and that borrowers are actively co-operating with the servicer to repay the loans.

High Seasoning; Improved Performance

This is a highly seasoned pool with 219 months of weighted average (WA) seasoning. Arrears greater than or equal to one month has improved to 4.02 % of the current balance as of August 2017 from a peak of 11.66% in February 2009. Fitch assumes that loans in arrears are more likely to default and applies more conservative default adjustments to them. For loans that are more than six months in arrears, a 100% default probability is assumed at the 'AAA' rating level.

Floating Unhedged Portfolio

All of the loans in the portfolio are floating-rate. As the note payments reference LIBOR, with no swap in place, the transaction is exposed to basis risk between the floating rates received on the assets and LIBOR. Fitch stressed the transaction's cash flows for basis risk according to its criteria.

RATING SENSITIVITIES

In Fitch's view, as the pool is 100% floating-rate, a sudden sharp increase in interest rates would put a strain on borrower affordability and potentially lead to a rise in arrears and subsequent defaults. Moreover, the pool is exposed to the risk that a proportion of interest-only loans in the pool will not be able to repay the balloon payment at maturity. Should arrears, defaults and loans past maturity exceed Fitch's current stresses, the agency may take negative rating action.

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO RULE 17G-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third-party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset pool ahead of the transaction's initial closing. The subsequent performance of the transaction over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall and together with the assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

SOURCES OF INFORMATION

The information below was used in the analysis.

-Loan-by-loan data provided by Paragon Group of Companies plc as at 31 August 2017.

- Transaction reporting provided by Paragon Group of Companies plc as at 1 September 2017.
- Discussions/updates provided by Paragon Group of Companies plc as at 22 December 2017.

MODELS

ResiEMEA. (<https://www.fitchratings.com/site/structuredfinance/rmbs/resiemea>)

EMEA RMBS Surveillance Model. (<https://www.fitchratings.com/site/structuredfinance/rmbs/emearsm>)

EMEA Cash Flow Model. (<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

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Additional information is available on www.fitchratings.com

Applicable Criteria

EMEA RMBS Rating Criteria (pub. 27 Oct 2017) (<https://www.fitchratings.com/site/re/905358>)

Global Structured Finance Rating Criteria (pub. 03 May 2017) (<https://www.fitchratings.com/site/re/897411>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017)

(<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017)

(<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 18 Sep 2017)

(<https://www.fitchratings.com/site/re/903496>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017)

(<https://www.fitchratings.com/site/re/893890>)

UK Residential Mortgage Rating Criteria Addendum - Residential Mortgage Assumptions (pub. 08 Dec 2017)

(<https://www.fitchratings.com/site/re/905920>)

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